

WAYS AND MEANS COMMITTEE

5:00 p.m., Tuesday, June 18, 2019

Council Chambers

1207 Palm Boulevard, Isle of Palms, South Carolina

AGENDA

1. **Call to Order** and acknowledgement that the press and public had been duly notified of the meeting in accordance with the Freedom of Information Act.
2. **Approval of Previous Meetings' Minutes**
Special Meeting Budget Workshop #1 – December 18, 2018
Special Meeting Budget Workshop #4 – May 21, 2019
Regular Meeting – May 21, 2019
3. **Citizens' Comments**
4. **Financial Statements – Treasurer Debbie Suggs**
 - A. Financial Reports
 - B. Projects Worksheets
5. **Old Business – None**
Discussion of proposed FY 20 budget
6. **New Business**
 - A. Presentation by McCay Kiddy – Agreed Upon Procedures for Marina Tenants
 - B. Consideration of 2019 Merit Increases
7. **Miscellaneous Business – None**

Next Meeting Date: 5:00 p.m., Tuesday, July 16, 2019 in Council Chambers
8. **Executive Session – if needed**

Upon returning to open session, the Committee may take action on matters discussed in Executive Session
9. **Adjournment**

WAYS and MEANS COMMITTEE

5:00 p.m., Tuesday, May 21, 2019

The regular meeting of the Ways and Means Committee was called to order at 5:50 p.m., Tuesday, May 21, 2019 in Council Chambers of City Hall, 1207 Palm Boulevard, Isle of Palms, South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Ferencz, Kinghorn, Moye, Rice and Smith, Chair Ward, Mayor Carroll, Interim Administrator Fragoso and City Clerk Copeland; a quorum of the Committee was present to conduct business.

1. Chair Ward called the meeting to order and acknowledged that the press and public were duly notified of the meeting in accordance with the Freedom of Information Act.

2. Approval of Previous Meeting's Minutes

MOTION: Mayor Carroll moved to approve the minutes of the regular meeting of April 16, 2019 as submitted; Councilmember Bell seconded and the motion PASSED UNANIMOUSLY.

3. Citizens' Comments

Rusty Streetman, 4004 Palm Boulevard, addressed the Committee about the new hotel being constructed in Wild Dunes and the night dement pouring events scheduled from July 2019 through April 2020. As a resident of Palm Boulevard, he asked Council to consider other options for the continuous pouring events to occur between the hours of 2:00 a.m. and 6:00 a.m. He asked that consideration be given to the residents of Palm Boulevard about how to mitigate the noise from the concrete trucks. He stated that he plans to expand on his ideas at the City Council meeting next week.

Arnold Karig, 5102 Palm Boulevard, addressed the same issue; the text of his comments is attached to the historical record of the meeting.

The comments from Elizabeth Campsen, 32 Intracoastal Court, on the concrete pourings are also attached to the historical record of the meeting.

4. Financial Statements – Treasurer Debbie Suggs

A. Financial Reports

At April 20, 2019, General Fund revenues were at eighty-one percent (81%) of budget and General Fund expenditures were at seventy-six percent (76%) of budget. According to the Treasurer, the General Fund is forecasted to end the year one million two hundred thousand dollars (\$1,200,000) ahead of budget. The major contributors to the net positive result are business licenses, building permits and parking fees; the lower than expected forecast for expenditures can be attributed to vacancies in City Hall, the Police Department and the Public Works Department.

Tourism funds were tracking as predicted, and the last couple of months of the year are expected to be high impact months for tourism revenues. Local Option Sales Taxes are running four point three percent (4.3%) that the same period in FY18.

B. Projects Worksheets

The Phase II Drainage project is nearing completion with four hundred twenty-nine thousand dollars (\$429,000) remaining to be spent. The removal/replacement of the underground storage tanks is running past its completion date, and the City will be seeking liquidated damages from the contactor.

5. Old Business – none

6. New Business

- A. Recommendation from the Real Property Committee to approve a proposal from ATM in the amount of \$68,000 to expand the scope of work to develop a plan for the inclusion of dock areas referred to as Area B and Area C

MOTION: Councilmember Bell moved to approve the ATM proposal in the amount of \$68,000 to expand the scope of work to include Areas B and C in the dock rehabilitation; Mayor Carroll seconded.

When Councilmember Ferencz voiced concern that the drawing in the proposal was not the concept approved by Council, Interim Administrator Fragoso noted that the drawing in the proposal was not the approved concept.

VOTE: The motion PASSED UNANIMOUSLY.

- B. Recommendation from the Real Property Committee to award a contract to Coastal Science and Engineering for RFP 2019-02 – Island-wide Beach Monitoring in the amount of \$30,520 per year for 3 years

MOTION: Councilmember Kinghorn moved to award a contract to Coastal Science and Engineering for Island-wide Beach Monitoring in the amount of \$30,520 per year for 3 years; Councilmember Bell seconded.

Interim Administrator Fragoso stated that RFP 2019-02 was issued for island-wide beach monitoring and that CSE was the lowest bidder.

VOTE: The motion PASSED UNANIMOUSLY.

- C. Consideration of an award of a contract to Kotori Technologies in the amount of \$99,993 for City-wide IT management and support services

Interim Administrator Fragoso informed the Committee that she received a fourth proposal today and asked that the Committee defer action until she has had time to study it.

7. Miscellaneous Business – none

Next Meeting Date: 5:00 p.m., Tuesday, June 18, 2019 in Council Chambers

8. **Executive Session** – not needed
9. **Adjournment**

MOTION: Councilmember Buckhannon moved to adjourn the meeting at 6:18 p.m.; Councilmember Moye seconded and the motion **PASSED UNANIMOUSLY**.

Respectfully submitted:

Marie Copeland
City Clerk

Special Ways and Means Committee Meeting

9:30 a.m., Tuesday, December 18, 2018

A Special Meeting of the Ways and Means Committee was held at 9:30 a.m., Tuesday, December 18, 2018 in Council Chambers, 1207 Palm Boulevard, Isle of Palms, South Carolina. Attending the meeting were Councilmembers Bell, Buckhannon, Ferencz, Kinghorn, Moye, Rice, Smith and Chair Ward, Mayor Carroll; non-councilmembers attending the meeting were Interim Administrator Fragoso, Treasurer Suggs, Department Managers Chief Graham, Kerr, Page, Pitts and Interim Chief Usry, Human Resources Officer DeGroot and Clerk Copeland. A quorum of City Council was present to conduct business.

1. Chair Ward called the meeting to order and acknowledged that the press and public were duly notified of the meeting in accordance with the Freedom of information Act.

2. Purpose: FY20 Budget Workshop

Chair Ward stated that City Council has challenges ahead that must be addressed. He noted that Interim Administrator Fragoso, Treasurer Suggs, Councilmember Bell and Scott Pearson put in many hours on the schedules included in the meeting packet. He added that this meeting was not set to make any decisions or determinations on the FY20 budget, but it was to be informative about where the City has been, where it is going and what the challenges are for the next three (3) years.

The Interim Administrator and the Treasurer produced a PowerPoint presentation relative to the FY20 budget to open the discussions, and a copy is attached to the historical record of the meeting. A calendar for the FY20 budget process was included that works toward the Second Reading of the Budget Ordinance at the May 2019 Council meeting. The Interim Administrator stated that the island's population has increased by five point five percent (5.5%) over the past seven (7) years or thirty-two (32) people moving to the City each year; this increase will impact the City through an increased demand on City services. The median value of homes on the island is eight hundred five thousand nine hundred dollars (\$805,900) which provides a stable property tax base for the City, and, through 2017, the island had a total of four thousand three hundred eighteen (4,318) housing units with approximately one-third ($\frac{1}{3}$) being owner-occupied. The following capital improvement projects will impact the FY20 budget and future budgets as well:

• Public Safety Building repairs	\$3-5 million dollars
• Phase III Drainage – Outfalls	4.2 million dollars
• IOP Marina Dock Repairs	3.0 million dollars
• 95 ft. Ladder Truck	1.4 million dollars
• Phase IV Drainage – basins to outfalls	<u>7.8</u> million dollars
TOTAL	20.4 million dollars

The cost for the remediation of the Public Safety Building will not be known until the walls are opened up to get an idea of the extent of the problems. Once the outfalls have been improved, the City is looking at the Phase IV Drainage Project that will be improvements to the infrastructure to get the stormwater from the basins on the interior of the island to the outfalls. The Planning Commission is already looking ahead to a Phase V Project with preliminary estimates of ten million dollars (\$10,000,000). The marina dock repairs are underway with the City's contract with ATM to do the design, engineering and permitting; the total project is estimated at three million dollars (\$3,000,000). The 95-foot ladder truck is included in the 10-year Capital Plan to be

purchased next year; staff is currently evaluating the feasibility of retrofitting the City's existing 95-foot truck at a cost of six hundred thousand dollars (\$600,000). Interim Administrator Fragoso informed the Committee that a representative of E-One will attend the January Ways and Means Committee meeting to explain the options available to the City. In the past, Council discussed the possibility of partnering with Wild Dunes for the cost of a new truck since its primary use will be the tall structures inside the gates. She reminded the Committee that consideration was given to the idea of asking Wild Dunes for a contribution toward the cost of the ladder truck since it would primarily be used in case of a fire or other emergency in the tall structures there.

Other projects not listed in the information distributed was the City's agreement to partner with the IOP Water and Sewer Commission on providing sewer to the entire island; preliminary estimates of the project's cost have come in at between forty and fifty million dollars (\$40,000,000 - \$50,000,000) and the costs include the relocation of the Wild Dunes plant. The island's primary attraction the beach must be maintained and will require a renourishment project every eight to ten (8 – 10) years; the City now has a dedicated source of funds for those requirements in the Beach Preservation Fee Fund.

These circumstances generate the question of where the funds will come from to meet these critical needs of the City and to continue to offer the same level of service to the residents.

The first schedule for review was the cash flow forecast through FY22, and, in general, the balances of the unrestricted funds decline because of the projects the City will undertake that it has saved for, and the tourism funds will remain relatively flat while the Beach Preservation Fund increases. The schedule begins with the October 31, 2018 cash balance and concludes with the June 30, 2022 projected balance; the schedule is a high-level view of total revenues and total expenditures by fund and categorized by type of fund. Funds included in unrestricted funds include the General Fund, the Capital Projects Fund, the Disaster Recovery Fund and the Marina Fund; activity in these funds is directed by City Council. The tourism funds are both State and municipal accommodations taxes, the County Pass-through and hospitality taxes; the use of these funds are restricted but do have some degree of flexibility. The Beach Preservation Fee fund column is more restricted in that it can only be used for beach nourishment and the costs associated with it, such as beach monitoring, and access to the beach. In this schedule, the balance in the unrestricted funds declines by approximately five and a half million dollars (\$5,500,000); the desire is for this decline to be reduced. This schedule is to be a tool for Council in preparation of the FY20 budget, and it will be constantly updated as the budget is changed, decisions are made that impact these numbers and the ending cash balance. The assumptions for this schedule are noted at its end.

The next schedule includes historical and forecasted payroll and fringe costs by department since 2014, any changes to the number of employees in each department and the percent of increase from 2014 through projected 2019. The schedule also presents two (2) scenarios for awarding wage increases going forward; Scenario A assumes the City continues with the increase levels decided upon two (2) years ago, and Scenario B assumes the City cuts the total merit and COLA to half its current levels.

When the Interim Administrator contacted other municipalities about what percentage of their annual operating budget was payroll related, she learned that IOP is on the higher end with seventy-three percent (73%) of the budget spent on wages and fringes; the average was between fifty-nine percent (59%) and sixty-three percent (63%). Personnel costs have increased thirty-three percent (33%) from 2014 to proposed 2019 numbers; if the City continues on its current course, the total expense could rise to fifty-two percent (52%) of the operating budget by FY22.

If the City were to reduce the current method for wage increases by half, the three-year savings would be seven hundred thirty thousand two hundred nineteen dollars (\$730,219). The fringe calculations borne by the employer assume that health insurance premiums would increase by four percent (4%) per year and retirement contributions would continue to increase at a rate of one percent (1%) compounding per year. The Interim Administrator noted that the City pays one hundred percent (100%) of an employee's health care premium and fifty percent (50%) of the premium for dependent care; she and the Treasurer are researching whether there would be benefits to asking City Council to change the policy shifting more of the burden to the employee.

Councilmember Bell stated that overtime wages were backed out of the payroll figures used for the calculations because the starting point must be the base pay per employee.

Treasurer Suggs related a wage increase scenario in which employees who were at or above their mid-range salary for the position would receive a lesser merit increase while those employees who were below the mid-range salary for the position could be awarded a higher percentage merit increase. She cautioned Council that police, firefighters and CDL drivers were wanted by other local governments in the area because the Isle of Palms has paid for their training; therefore, the City must retain parity with the surrounding communities.

Interim Administrator Fragoso noted that the City has lost three (3) police officers recently for higher paying positions in the Charleston area.

At the request of Councilmember Smith, the Interim Administrator explained that, a couple of years ago, City Council adopted a policy that the annual COLA would equal the CPI at the end of February and that the merit pool would be two percent (2%). Each year, the Treasurer computes the total merit pool of money and distributes it based on each department's percent of total base wages; the dollars in each pool are then distributed by the Department Manager based on an employee's score on the annual evaluation.

Councilmember Ferencz added that, prior to the adoption of this policy, the most prolonged debate at budget time was what percentage of wages would make up the merit pool, and it varied each year. When the COLA was re-instated, it meant that each and every employee got some kind of wage increase every year, and those employees who excelled would be rewarded with a merit increase as well paid from the merit pool of funds for the department.

Chair Ward reminded the Committee that the information being provided assumes that revenues are flat while expenses are increasing.

The Interim Administrator said that, with the high dollar projects in the immediate future and increasing personnel costs, a funding gap is apparent for FY20, and Council needed to decide what options were open to them to bridge the gap.

Two (2) additional schedules in the packet were a debt schedule that shows the City's current debt with the timing of the payoff, a new obligation for the drainage outfalls and a millage schedule showing the impact of increasing property taxes by the combined CPI from FY16, FY17 and FY18 for additional revenue. Other sources for revenue to consider are user fees, impact fees, franchise fees and licensing, an increase in the parking rates in the municipal lot, public-private partnerships, etc. The Interim Administrator also noted that a review of the Ten-Year Capital Plan would accomplish some savings in deferring or removing some items.

Discussing the debt schedule, the Treasurer commented that all loans that could be re-financed at a lower rate have been re-financed. The City currently has four (4) outstanding debt issues, and they are the purchase of the marina that will be paid off in February 2019, the addition to the Rec Center, Fire Station #2, and the Public Safety Building. Also presented on the debt schedule are two (2) possible additions: one (1) for the ladder truck at eight hundred forty-nine thousand five hundred dollars (\$849,500) and second for the drainage outfalls at four million, two hundred fifty thousand dollars (\$4,250,000).

A schedule prepared by Director Kerr was distributed that projected financial needs for phases 3, 4 and 5 of the City's drainage program:

- Phase 3 will be the outfall improvements at 30th, 36th and 41st Avenues;
- Phase 4 will improve the drainage systems inside the basins to the improved outfalls; and
- Phase 5 will address the drainage in the area from 28th Avenue to Breach Inlet.

The total cost for the three (3) phases is approximately twenty-three million seven hundred sixty thousand dollars (\$23,760,000) and the work should be completed in FY27. Interim Administrator Fragoso reminded the Committee that Phased II was nearly complete and that design work had begun for Phase III.

Mayor Carroll opined that drainage was more important than sewers; if the City could provide sufficient drainage, the septic tank problems would be greatly reduced.

According to Treasurer Suggs, State law does not allow the use of State ATAX funds to be used for drainage; they do not see drainage as a tourism-related activity. Currently in the State legislature is a bill that would allow the use of thirty percent (30%) of State ATAX funds for drainage, as well as local ATAX and local hospitality for flooding and drainage problems.

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Interim Administrator Fragoso encouraged Councilmembers to advocate for its passage through the City's representatives Chip Campsen and Mike Sottile. She also noted that as the bill reads currently, the use of these funds for drainage would only apply for ten (10) years.

Treasurer Suggs commented that having those funds available would be helpful in funding that gap or serving a debt for any loans the City would need.

The Interim Administrator stated that the Municipal Association is urging passage, and the City of Charleston is working hard as well. In addition, the coastal communities have banded together to get legislators to pass this bill.

The Mayor announced that the South Carolina Beach Advocates will be meeting in February here on the island, and he has spoken to the President to insure that this topic is on the agenda for discussion.

The final page of the financial information included in the meeting packet is a schedule showing how the proposed combined CPI increase to property taxes would impact homes appraised from two hundred fifty thousand dollars (\$250,000) to five million dollars (\$5,000,000) for both resident-occupied homes and second homes. The proposed increase in property taxes would yield to the City three hundred forty-four thousand dollars (\$344,000).

Treasurer Suggs also distributed the same schedule for Sullivan's Island and for Mount Pleasant for the Committee members to compare to the Isle of Palms. The Treasurer explained that the

State limits increases to operating millage to the CPI amount and a factor of growth, which is very small for the City, and the City gets a letter from the State every year showing how much the City can increase the operating millage. For the past three (3) years, the City has not utilized this increase, and the State law allows a municipality to go back three (3) years to apply the increases it did not take, which total approximately 7.8 percent.

Having lived in several different areas, Councilmember Bell commented that IOP residents have the most free services of any place he has lived for the amount of property taxes they pay each year. He said that a discussion should be about whether the City can continue to provide all of these services.

When Councilmember Rice asked if this action could trigger a re-assessment, the Interim Administrator answered that re-assessments happen every five (5) years, and the next one (1) will be 2020 or 2021.

Although the State caps the millage for property tax increases, debt millage has no such limit. If the City were to issue a GO bond, it could then raise the debt service millage to cover the principal and interest payments. The Treasurer explained that another State law limits the maximum amount of debt a municipality can incur at eight percent (8%) of the assessed value; at this time, the City can legally incur approximately ten million dollars (\$10,000,000) in available debt. If the City were to have a referendum, it could exceed the ten million dollars (\$10,000,000).

Councilmember Kinghorn opined that Council should consider imposing user fees before it decides to increase taxes.

Stating that the City had limited options for user fees, the Interim Administrator noted that building permits have not increased in twenty (20) years; Council has expressed the need to consider increasing the parking fees for the municipal parking lots after a loss of over one hundred thousand dollars (\$100,000) year-to-date in FY19. In addition, City Attorney Copeland is currently researching what opportunities might be available for additional revenue from alternate uses of the parking lots in the off-season. The franchise fees for Comcast could be increased by one percent (1%); in the previous year, the Public Works Committee discussed the possibility of imposing an impact fee on new construction for drainage.

Treasurer Suggs stated that the stormwater fee could be increased from the current annual fee of forty-eight dollars (\$48) to an amount not to exceed seventy-two dollars (\$72); she said that a portion of this money was used for the wash-down facility at Public Works. These fees are collected and held by Charleston County for the City.

Responding to Councilmember Smith's question about impact fees, Director Kerr stated that other municipalities that have drainage impact fees set them based on the amount of lot coverage the new construction will use. He suggested that the City could increase the permit fees associated with new construction which are based on the cost of the project in lieu of a drainage impact fee.

Councilmember Kinghorn asked if the City would save money if its drainage projects were done simultaneously with sewer projects.

Mayor Carroll was told that to install sewer for the entire island would cost between forty-five and forty-seven million dollars (\$45,000,000 - \$47,000,000).

According to Councilmember Kinghorn, “the worst thing that could happen to the environment on this island would be to have untreated sewage issues.”

Eadie’s is currently doing the City’s stormwater project that will be followed by a sewer project on the same streets for the Water and Sewer Commission; therefore, Director Kerr went to them for an answer about possible cost savings by doing the two (2) projects in tandem. He was told that, when new sub-divisions are developed, the contractor will go down the right-of-way to install drainage lines and cover it over; a separate crew will come after and till up the soil to install sewer lines. Some savings would be seen in paving because the area would not be paved twice; in general, Eadie’s indicated that any cost savings would be minimal.

In a discussion with the Water and Sewer Commission about the outfall modifications on 30th, 36th, and 41st Avenues, Director Kerr learned that they are planning to apply for a permit from OCRM to discharge more water when the Wild Dunes’ system that is directed to the treatment plant on 41st and Waterway and then to the modified 41st Avenue outfall.

Interim Administrator Fragoso informed the Committee that mandatory tie-in to the sewer would be necessary to provide dedicated funding for the project.

Councilmember Moye remarked that the Committee had discussed possible new revenue sources, but they had not discussed ways to reduce expenses; he questioned what opportunities might be available to rein in expenses.

In January as the Committees study the operating budgets for the departments under their purview, discussions about reducing expenses will start, but she did not expect to find any substantial savings in the General Fund budget because it was already tight. The opportunities would be found in the Ten-year Capital Plan where planned expenses for FY20 might be moved out a year, deleted entirely or replaced by a newer version that could be less expensive, and the discussions with the department managers would also occur in January.

Councilmember Bell indicated that he was interested in seeing who was being paid overtime in the Police and Fire Departments – the more senior and, therefore, higher paid employees or the newer and lower paid employees. Possibly departmental practices need to be reviewed, and, as a Councilmember, he would be interested in understanding how the Fire and Police Departments scheduled the shift employees. In his opinion, the City’s payroll costs were “out of control.”

Councilmember Smith had several thoughts on wages she wanted to share with fellow Councilmembers. She cautioned the Committee about comparing the City’s payroll expense to that of other local governments because others might have revenue from additional sources, like water and sewer departments. She agreed that Council should consider other methods for compensating employees, but she did not agree that the percentage of the City’s budget going to payroll expenses was not necessarily a bad reflection on the City and its processes.

Changing the subject to the marina, Councilmember Ferencz expressed her opinion that the City needed to decide if it wanted to be in the real estate business or not. She indicated that she would not be opposed to selling or leasing the entire marina with the caveat that IOP residents would always have access to the water. If something like this was done, the City would not have to go into debt to make it safe for residents and visitors.

Councilmember Rice stated that she would be opposed to the City divesting itself of the marina.

Councilmember Bell stated that the estimated twenty-three million dollars (\$23,000,000) in repairs to the marina is something that must be done as part of the City's responsibility under the terms of the lease.

Councilmember Kinghorn said that one (1) source of revenue the Committee has not discussed was grants; he did not think the City applied for or received as many grants that it could qualify for each year. He suggested finding a way to incentivize departments to acquire more grants.

Councilmember Moyer noted that many firms and municipalities have dedicated grant writers; he added the position tends to pay for itself relatively quickly.

Referring to the three or four (3 – 4) openings for police officers, Councilmember Smith asked if the Interim Chief could hold off filling the positions since it was the off-season.

Interim Chief Usry explained that she could not reserve space at the Justice Academy without having someone hired, and currently the wait list was for seven (7) months into the future. She stated that one (1) officer has been hired leaving three (3) openings; the person hired cannot go to the Academy until July 2019. She informed the Committee that the training at the Academy took thirteen (13) weeks to complete, and the officer would then return to the island for two and a half (2½) months of field training before becoming an independent officer.

Chair Ward voiced his thanks for the many hours of work that staff, department heads and Councilmembers had put into preparation for today's meeting.

Interim Administrator Fragoso asked that Councilmembers feel free to call, email or stop by the offices to see her or Treasurer Suggs with any questions they have in reviewing the material reviewed in this meeting; she acknowledged that they were given a volume of information in a short timeframe. If anyone wanted or needed additional data, staff would make every effort to provide it.

Councilmember Buckhannon said that he would like to know the gross costs of the City's operating the municipal parking lots that would include the BSOs, their uniforms and vehicles, the maintenance and upkeep, etc.

3. Adjournment

MOTION: Councilmember Bell move to adjourn the meeting at 11:20 a.m.; Councilmember Buckhannon seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk

Ways & Means Committee Meeting

4:00 p.m., Tuesday, May 21, 2019

A Special Meeting of the Ways and Means Committee was held at 4:00 p.m., Tuesday, May 21, 2019 in Council Chambers of City Hall, 1207 Palm Boulevard, Isle of Palms, South Carolina. Present for the meeting were Councilmembers Bell, Buckhannon, Ferenz, Kinghorn, Moye, Rice, and Smith, Chair Ward, Mayor Carroll, Interim Administrator Fragoso, Treasurer Suggs, City Clerk Copeland; a quorum of the Committee was present to conduct business.

1. Chair Ward called the meeting to order and acknowledged that the press and public were duly notified of the meeting in accordance with the Freedom of Information Act.

2. PURPOSE

Discussion of FY20 Budget

Chair Ward welcomed Committee members to the fourth budget workshop on the FY20 budget' the hope for today's meeting was to finalize the budget. After many hours of hard work, the Treasurer and Interim Administrator have put together a short slide presentation, and the Chair urged Councilmembers to ask their questions as they come up rather than holding them to the end.

Interim Administrator Fragoso stated that the focus for this budget were the following:

- remediation of the Public Safety Building,
- the purchase of a new 75 foot ladder truck and refurbishment of the 95 foot ladder truck,
- the design and engineering for the Phase III Drainage project;
- the funding of smaller but impactful drainage projects before Phase III begins;
- initiation of a deferred maintenance fund with 1% of the insured value of City facilities; and
- rehabilitation of marina docks on Morgan Creek.

Revenues in this budget include some increases in fees, i.e. rental licenses, building permits, stormwater fees, parking rates, etc. totaling approximately nine hundred thousand dollars (\$900,000). The increase to building permits has added approximately two hundred thousand dollars (\$200,000) relative to the Wild Dunes project for the current budget year FY19. Tourism funds are predicted to increase approximately three percent (3%) based on historical trends, and accommodations and hospitality taxes to the City will increase based on the new hotel in Wild Dunes.

Since the largest percentage of City's expenditures are personnel related, reducing it is an ongoing task that must be done thoughtfully and strategically; this budget reflects the elimination of the annual COLA increases. The FY20 budget includes a two point five percent (2.5%) merit-based pool for wage adjustments that will be targeted by where the individual falls in the wage range for the position. Vacancies in the Police Department and in General Government present opportunities for consolidating and restructuring some positions.

The transfers-in of tourism funds to cover operating expenses has been reduced by thirty-two percent (32%).

As the discussion moved to the remediation of the Public Safety Building (PSB), the Interim Administrator reported that Trident Construction has completed the first phase of work, the forensic investigation of the building. They estimate the cost for the work needed and recommended for the building to be five million two hundred fifty-six thousand dollars (\$5,256,000), plus a fifteen percent (15%) contingency of seven hundred-eighty eight thousand dollars (\$788,000) and one hundred thousand dollars (\$100,000) to relocate personnel during the ten to twelve (10-12) month construction period; these numbers total approximately six million two hundred thousand dollars (\$6,200,000). Since the nine percent (9%) contractor's fee is included in Trident's estimates, the total is lower than the figures sent out last week.

The budget for the project moves forward with the four million dollars (\$4,000,000) cash on hand from Capital Projects, Accommodations taxes and tourism funds; the City must find another revenue source of the remaining two point two million dollars (\$2,200,000). Looking at a timeline, the design/build firm will need six (6) months to complete the design once a contract is signed, meaning that construction could begin in January 2020 and crossing two (2) fiscal years. The City could issue a GO bond for the remaining two point two million dollars (\$2,200,000) and service the debt equally between Capital Projects and Hospitality Taxes. Another funding possibility would be for the City could take a "wait and see" approach by monitoring the budget very closely every month to know that the City has the funds to cover the building expenditures for the next month. When the time comes to borrow money, the City may need to borrow less than two point two million dollars (\$2,200,000) because the tourism funds have been stronger than budgeted and/or certain costs associated with the building could have been less than expected. The outside possibility exists that the City would not need to borrow money at all. As the City goes through the process, the design/build team and the City staff will look for reasonable opportunities for cost savings.

Councilmember Kinghorn commented that these estimates are considerably higher than the costs used in the litigation of three to five million dollars (\$3,000,000 – 5,000,000).

Interim Administrator Fragoso stated that she did not want to get into a discussion of the litigation, but some things have been discovered that were not included in the litigation, and some things have reached the end of their useful life and are identified as such. In addition to the increase in prices, the estimates from Trident include a twenty percent (20%) contractors' contingency.

Chris Burrell, 2702 Cameron Boulevard, with Trident Construction, stated that they did a thorough investigation of the building and identified costs of four point four million dollars (\$4,400,000) for the remediation and approximately eight hundred thousand dollars (\$800,000) for those items that are at the end of their useful life. With their twenty percent (20%) contingency, they are about eighty percent (80%) right; through their weekly meetings with the Interim Administrator. In the investigation, they tried to identify problems as essential and high risk; one of the essential items was the HVAC system that is creating indoor air quality issues. He stated that the building is not taking in outside moisture as it is air vapor; having the system approximately seven hundred from the ocean and the way it sits up on a hill, it has full exposure to the southwest winds the island gets on a regular basis. A leaky building from an air standpoint is simply a building that is just blowing it through. Part of fixing the building is getting the outside sealed by taking all of the cladding off and the roof off, especially the metal roof to if it is a cause of some of the air leakage. Mr. Burrell said that a lot of the rusting and corrosion were caused by the use of the wrong type of material for the salt air environment. In considering what would have the least impact on the employees, they concluded that they need to get into the building and get everything done at one (1) time, not to phase the work, which means that the Police and Fire Department personnel must be relocated.

Councilmember Kinghorn asked if anyone had done a cost-basis analysis of raising the building and new construction; what would that price tag be compared to what is before them now?

Mr. Burrell stated that the Turner Construction Index, that they use to estimate what something would cost if built “x” number of years ago, indicates that prices have been increasing at a rate of between four and five percent. When they did the calculation with a cost of six million dollars (\$6,000,000), the result was a cost between eight and nine million (\$8,000,000 – 9,000,000) dollars today.

Councilmember Kinghorn then stated that, “with a three million dollars (\$3,000,000) differential, o [the citizens] want new or rehabbed?”

Councilmember Bell pointed out that Trident was not starting with six million dollars (\$6,000,000) as its base.

Councilmember Ferencz said that the needs of the Police Department and the needs of the Fire Department were very different, but they are occupying the same building. She asked if the building were to be raised and to build four (4) individual components giving each department what they need would the cost come down closer to six million dollars (\$6,000,000). She described the PSB as “a grandiose building with a first floor of nothing but empty hallways” because of the needs of the two (2) occupants. She indicated that she understood what Mr. Burrell was saying about the problems with the building, but she did not feel the Committee has enough information to make the decision about putting it in the budget and fixing it versus other options. She said that she would like to see it kicked back to the Real Property Committee to look into things they have not talked about previously.

Mr. Burrell responded that flooding was the reason for the first floor to be like it is was.

Councilmember Rice stated that she was on Council when the PSB was built. She remembered that they did a lot of research and the Chiefs provided a lot of input to insure that the building was suitable to both departments. She said that she has not heard any comments that employees being unhappy or critical of the layout or functionality of the building, and she could not imagine starting over with a new building.

As a resident and a taxpayer, Mayor Carroll commented on the rust, corrosion, etc. and asked Mr. Burrell if he thought the structure was worth salvaging with a new roof and new sheathing, a new envelope all the way around.

Mr. Burrell stated that the PSB has good bones, and they need to get rid of the things that do not function well in the environment on the island. He noted that, if he had a vote on what to do with the building, he would vote to fix what is there; if the work is done thoughtfully, it can be delivered as economically as possible and still deliver a high quality end product. The key factor in the work to be done is sealing the building envelope tightly.

Councilmember Kinghorn asked what the life expectancy of the building will be after the rehabilitation and was told that the average life expectancy of a commercial building with regular use was twenty-five to thirty (25 – 30) years.

Based on the bad first experience with this building, Councilmember Ferencz asked who on staff was going to be the person responsible for oversight on this project.

Interim Administrator Fragoso stated that the City did not have anyone who could be assigned to the project full time, and that the main reason staff had recommended a design/build was that the two (2) entities would be checking behind each other to make sure that things were being done properly.

Councilmember Ferencz followed up asking whether the City needed to hire an expert to be on-site every day to protect the City's interests.

Chair Ward reminded the Councilmember that, when the real Property Committee interviewed the contractors to choose one (1) for the first phase of work, both Trident and Hill explained how they would photograph a problem area before they did any work, repair the problem taking more photographs and finally photograph the finished product. The documentation was their way of assuring the customer that they were confident that their work would stand up to scrutiny.

At this point, Council was in agreement that they would move forward as proposed.

The next major subject for discussion and consideration was the marina. When Council first discussed the rehabilitation of the marina docks, the discussion was about a phased approach over five (5) years, but, in the interim, the condition of the docks on Morgan Creek has deteriorated with a section of the dock beside Morgan Creek Grill having collapsed very recently. Kirby Marshall, with ATM, has told the Interim Administrator that the docks have reached a point where they are a safety hazard and should all be replaced sooner rather than later. If the City receives the permits early in 2020 and goes through the bidding process, the earliest the construction could take place is the fall and winter of 2020; the work should take four to five (4 – 5) months. Dredging of the marina has come forward on the Capital Plan at a cost of seven hundred fifty thousand dollars (\$750,000) and should be done in coordination with the dock rehabilitation. The total cost for the replacement of the docks with a fifteen percent (15%) contingency and the dredging is three million nine hundred thousand dollars (\$3,900,000); staff is recommending funding this work with a four million dollar (\$4,000,000) revenue bond pledging State ATAX and servicing the debt with tourism funds and marina revenue.

Another issue to consider with the marina project is the reduction in rent revenue for Morgan Creek Grill since that lease expires on October 30, 2020; the significant needs of the building mean that it will be under repair or construction and the City will not receive any revenue. The rental revenue from Tidalwave is not expected to be interrupted.

Councilmember Bell reminded Council that the budget did not include any money for repairs or construction of a marina restaurant.

The debt service on the revenue bond changes the forecast for FY21.

Councilmember Bell commented that the City was legally obligated by the lease to maintain the docks, and the four million dollars (\$4,000,000) is to replace the docks and nothing more.

Interim Administrator Fragoso pointed out that ATM presented three (3) concepts for the docks on Morgan Creek for Council's consideration and the concept Council approved has changes from the existing configuration for safety and improved maneuverability. She stated that the reason the Council meeting for the discussion of the overall vision of the marina has not been scheduled because the City has not gotten a response from DHEC or the Army Corps of Engineers relative to the permit applications and what they will and/or will not allow.

The third major project the City must address in the FY20 budget is Phase III Drainage Project; Thomas & Hutton is finishing the investigative work and will have its recommendations the first week of June. Staff estimates the project to cost three million nine hundred thousand dollars (\$3,900,000); assuming that permitting is complete next winter, the construction would begin in the spring of 2020. If that proves to be true, the construction will span two (2) budget years, and despite the debt issuance in FY20, only one and a half million dollars (\$1,500,000) will be spent in FY20.

Treasurer Suggs referred to the schedule entitled "City of Isle of Palms Debt Schedule;" the section at the top of the page lists existing debt principal totaling six million sixty thousand dollars, (\$6,060,000) and the blue section lists proposed debt to be incurred in FY20 – FY21 totaling eleven million five hundred forty-eight thousand five hundred dollars (\$11,548,500). The new debt has varying terms at an interest rate of four percent (4%). The new debt will be included in the fourth version of the budget. From talking with various people knowledgeable about borrowing at this level, the Interim Administrator and the Treasurer believe that the City should hire an experienced financial adviser to insure that the City was borrowing in the smartest way possible. Draft 4 of the budget will also include forty thousand dollars (\$40,000) to hire this person.

When Councilmember Kinghorn asked about using fund balances to fund these projects, Treasurer Suggs was not supportive; she could not advocate for significantly reducing fund balances.

The Treasurer explained that the City's debt limit only applies to General Obligation debt use the full faith and credit of the City; for the revenue bond, the City would pledge State ATAX funds. The low point in the City's debt limit is in FY20 when the debt limit would be approximately five million eight hundred thousand dollars (\$5,800,000).

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Treasurer Suggs stated that, in order to service the debt, staff proposes an increase to the debt service millage of one point four (1.4) mills to service the debt on the drainage outfall project only. With that additional revenue, staff believes that other City funds will cover the two point two million dollars (\$2,200,000) General Obligation debt for the Public Safety Building.

The Interim Administrator noted that, based on historical trends, staff anticipates tourism funds to remain healthy and growing; should the tourism funds show volatility, staff would need to identify another revenue source. She stated that staff has chosen to leverage tourism funds as much as it can for projects before increasing operating millage knowing that the City can capture up to three (3) years' CPI increases.

Referencing a comparison between hiring a full-time IT person versus hiring a contractor, Councilmember Bell believes that the IOP computer system is not very complicated and the one hundred thousand dollars (\$100,000) included in the budget would provide a reasonable salary for the level of sophistication required. He added that this person could also develop an IOP website that would enable the City to stop sending the Charleston Visitors Bureau (CVB) State ATAX funds and to keep the money here on the island for the City to use as it deems appropriate for tourism.

Agreeing with the Councilmember that the City's network should not be too complicated, the Interim Administrator recalled that the subject of no longer using the CVB for tourism promotion has been a recurring subject of conjecture. She commented that the contractor the City has used since Chief Buckhannon's retirement does not fully understand the City's network, and the users continue to have computer issues.

Councilmember Bell stated that documentation is as important in a computer network as it is in building construction. He believed that the City would be better served with an in-house IT person who could learn the City's system and maintain the documentation necessary for anyone who might follow.

Mayor Carroll suggested that having a contractor with multiple employees would be better at having someone on-call than a City employee, who could get sick or take vacation.

Chair Ward commented that this was a subject that should be left to the Personnel Committee to work through.

When the Committee got to Page 3 of the handout that shows the forecast of tourism funds over a five (5) year period, Treasurer Suggs pointed out that, at the end of FY20, the combined total of fund balances for tourism funds would be approximately one million five hundred thousand dollars (\$1,500,000), and at the end of the five (5) years, the balance would have grown four million seven hundred thousand dollars (\$4,700,000). If the City were to use all of those tourism funds toward the debt on the Public Safety Building remediation, the City would be without any tourism funds.

Councilmember Rice recalled that several years ago, the City looked at how other local governments used tourism funds and learned that some spend all of the funds they receive every year; Myrtle Beach was one (1) of these municipalities.

The Treasurer stated that the City could do a shorter-term loan if it was to spend all of the tourism funds every year to pay down debt; she indicated that she would expect the financial adviser to inform the City if that was the best course of action.

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According to the Treasurer, Draft 4 of the budget would present the worst-case scenario, i.e. the City would borrow money for every one of its imminent projects and how the debt service would affect the funds that would serve them. This would provide Council with a budget on which to vote.

Councilmember Ferencz asked what had been taken out of the budget for the City to be able to assume and payoff such a large amount of debt, and she was told about one (1) pickup truck and the one percent (1%) maintenance on the Public Safety Building while it was under construction in FY20 and FY21. Treasurer Suggs commented that Draft 3 of the budget had very little expense that could be eliminated or reduced.

Interim Administrator Fragoso asked the Committee what projects they would put into a category for "would like to have, but don't have to have".

The Treasurer directed attention to Page 5 of the handout with the header "Summary of Capital/major maintenance/special projects proposed budget – sorted by 5-year total cost"; this list would serve as a guide if anyone wanted to put a project on a list to consider postponing.

According to Councilmember Bell, one (1) such discussion would be taking out the two hundred seventy-five thousand dollars (\$275,000) for the improvements to the multi-use path on Waterway Boulevard, and holding off on that project until the City has received enough CTC funds to pay for it.

Interim Administrator Fragoso noted that the replacement of the pumper truck could be moved to FY22 or the City could reduce the cost by refurbishing it rather than replacing with a new truck. She commented that the construction of Phase III Drainage might be delayed if the permits are not received in the winter of FY20, but the City was advised to push the permitting agencies for the timely issuance.

MOTION: Chair Ward moved to approve up to \$40,000 for a financial adviser in the FY20 budget; Councilmember Moyer seconded and the motion PASSED UNANIMOUSLY.

When the Interim Administrator asked if anyone had reservations about including the items discussed in Draft 4 of the FY20 budget.

Councilmember Kinghorn recalled that one (1) fee (Water and Sewer franchise fee) proposed last month was approved then not approved for the FY20 budget was twice the amount to be raised through the proposed increase in the debt service millage.

Councilmember Rice requested that staff consider using tourism funds in the short-term to reduce debt on a very specific debt issuance with a specific time frame; she proposed using the money on the anticipated marina debt for the dock replacements.

3. MOTION: Councilmember Buckhannon moved to adjourn the meeting at 5:42 p.m.; Councilmember Moyer seconded and the motion PASSED UNANIMOUSLY.

Respectfully submitted:

Marie Copeland
City Clerk

City of Isle of Palms
Financial Statement Summary as of May 31, 2019
(Dollars in Thousands)

	REVENUES						TRANSFERS IN / (OUT)						EXPENDITURES						YTD Actual Net Revenues & Transfers Less Expenses	6/30/19 Forecasted Revenues & Transfers Less Expenses	Budgeted Revenues & Transfers Less Expenses
	YTD Actual	Annual Budget	Remaining to Collect	YTD Actual as a % of Budget	Current Annual Forecast	Forecast Above or (Below) Budget	YTD Actual	Annual Budget	Remaining to Transfer	YTD Actual as a % of Budget	Current Annual Forecast	Forecast Above or (Below) Budget	YTD Actual	Annual Budget	Remaining to Spend	YTD Actual as a % of Budget	Current Annual Forecast	Forecast Above or (Below) Budget			
General	\$ 8,876	\$ 10,205	\$ 1,329	87%	\$11,044	\$ 839	\$ -	\$ 1,139	\$ (1,139)	0%	\$ (146)	\$(1,285)	\$ 9,291	\$ 11,344	\$ 2,053	82%	\$10,767	\$ (577)	\$ (415)	\$ 132	\$ -
Capital Projects	999	1,403	404	71%	970	(433)	-	218	(218)	0%	1,452	1,234	1,756	4,168	2,412	42%	2,440	(1,728)	(757)	(18)	(2,547)
Muni Accom Tax	1,207	1,529	322	79%	1,589	60	-	(662)	662	0%	(662)	-	850	1,635	785	52%	1,305	(330)	357	(378)	(768)
Hospitality Tax	627	778	151	81%	804	26	-	(531)	531	0%	(480)	51	333	520	187	64%	394	(126)	294	(70)	(273)
State Accom Tax	1,280	1,769	489	72%	1,839	70	(229)	(589)	360	39%	(589)	-	1,069	1,783	714	60%	1,528	(255)	(18)	(278)	(603)
Beach Funds	1,035	1,020	(15)	101%	1,067	47	-	-	-	-	-	-	64	465	401	14%	131	(334)	971	936	555
Marina	319	497	178	64%	435	(62)	229	436	(207)	53%	436	-	293	768	475	38%	520	(248)	255	351	165
Disaster Recovery	116	25	(91)	464%	40	15	-	-	-	-	-	-	27	5	(22)	540%	15	10	89	25	20
All Other	167	174	8	96%	170	(4)	-	(11)	11	0%	(11)	-	191	165	(26)	116%	160	(5)	(24)	(1)	(2)
Total All Funds	<u>\$14,626</u>	<u>\$ 17,400</u>	<u>\$ 2,775</u>	<u>84%</u>	<u>\$17,958</u>	<u>\$ 558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>91%</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,874</u>	<u>\$ 20,853</u>	<u>\$ 6,979</u>	<u>67%</u>	<u>\$17,260</u>	<u>\$ (3,592)</u>	<u>\$ 752</u>	<u>\$ 699</u>	<u>\$ (3,453)</u>

General Fund YTD Revenues							
	FY19 YTD Actual	FY19 Budget	% of FY19 Budget	FY18 YTD	% of Prior YTD	Current Annual Forecast	Forecast Above/ (Below) Budget
Prop Tax	\$ 4,355	\$ 4,355	100%	\$ 4,283	102%	\$ 4,355	-
LO Sales Tax	562	750	75%	536	105%	780	30
Business Lic	1,360	1,215	112%	1,226	111%	1,538	323
Rental Lic	522	476	110%	480	109%	518	42
Other Lic (Insurance/Utilities	151	1,511	10%	135	112%	1,515	4
Build Pmts	363	301	121%	314	116%	648	347
From State	182	261	70%	175	104%	264	3
Parking	753	778	97%	538	140%	868	90
All Other	628	558	113%	557	113%	558	-
Total	\$ 8,876	\$ 10,205	87%	\$ 8,244	108%	\$11,044	\$ 839

General Fund YTD Expenditures (YTD target = 92%)							
	FY19 YTD Actual	FY19 Budget	% of FY19 Budget	FY18 YTD	% of Prior YTD	Current Annual Forecast	Forecast (Above)/ Below Budget
Mayor/Council	\$ 121	\$ 133	91%	\$ 126	96%	\$ 133	\$ -
General Govt	1,421	1,799	79%	1,387	102%	1,676	123
Police	2,182	2,771	79%	2,328	94%	2,653	118
Fire	2,934	3,346	88%	2,886	102%	3,327	19
Public Works	1,145	1,421	81%	1,151	99%	1,337	84
Build & Lic	343	420	82%	349	98%	411	9
Recreation	872	1,057	82%	849	103%	1,017	40
Judicial	182	260	70%	225	81%	220	40
BSOs	91	137	66%	69	132%	124	13
Total	\$ 9,291	\$ 11,344	82%	\$ 9,370	99%	\$10,898	\$ 446

FY19 General Fund Expense Budget is 4% higher than FY18 Budget

City of Isle of Palms Supplemental Financial Information as of May 31, 2019 (*Dollars in Thousands*)

Cash Balances		
	5/31/2019	5/31/2018
General Fund	3,605	3,062
<i>As a % of GF Exp</i>	32%	28%
Capital Projects	3,540	2,307
Disaster Recovery	2,482	846
Beach Maint	-	-
Marina	382	508
Tourism Funds	5,354	4,666
Beach Restoration	-	32
Beach Preservation	2,263	915
Other Restricted	239	289
Total All Cash	17,866	12,625
Deposits at LGIP (2.4093%)	16,825	94%
Deposits at BBT	1,040	6%

Fund Balances				
Fund	6/30/2018 Audited Fund Balance (Note 1)	FY19 YTD Actual Net Revenues & Transfers Less Expenses	5/31/2019 Actual Fund Balance	6/30/19 Forecasted Fund Balance
General Fund	\$ 3,205	\$ (415)	2,790	\$ 3,336
Capital Projects	4,929	(757)	4,172	4,911
Muni Accom Tax	1,717	357	2,074	1,339
Hospitality Tax	1,080	294	1,374	1,010
State Accom Tax	1,800	(18)	1,782	1,522
Beach Funds	1,292	971	2,263	2,228
Marina (See Note 1)	526	255	781	877
Disaster Recovery	2,382	89	2,471	2,407
All Other	755	(24)	731	754
Total All Funds	\$ 17,686	\$ 752	\$ 18,438	\$ 18,384

Note 1: The comparable amount for the Marina Enterprise Fund is not Fund Balance, but Net Position. To be consistent with the presentation of the other funds, the amount included here for the Marina is the Unrestricted Net Position, which does not include \$5,574,000 of fixed assets.

March Notes:

* Current forecast for FY19: The General Fund is expected to end the year approx \$1,285,000 to the good as compared to budget. This assumes all Transfers-In occur as budgeted. The forecast included in the FY20 Budget document assumes all this gain is rolled into the Capital Projects Fund at year end. The largest contributors to the positive net result are:

REVENUES: Business Licenses (\$323k better than budget), Building Permits (\$347k better than budget) and Parking Fees (\$90k better than budget)

EXPENDITURES: Vacancies in City Hall, Police Department & Public Works Department are forecasted to account for savings of approximately \$350K

* Total City Fund Balances are anticipated to end the year just slightly higher than the 6/30/18 fund balances. BUT, this is \$4.2 million better than anticipated due to the General Fund gain discussed above plus the impact of **delays** in spending for several expenditures that have been **rebudgeted** as part of larger FY20 projects; primarily the Public Safety Building repairs (\$900k), Drainage Phase 3 (\$300,000), debt service on 75' Ladder Truck (\$100,000), Public Safety Equipment (\$300k), beach expenses (\$334k) and Marina bulkhead & dock improvements (\$250k). **These savings primarily relate to timing differences only.**

RESOLUTION

BY THE CITY COUNCIL OF THE CITY OF ISLE OF PALMS, SOUTH CAROLINA, ESTABLISHING FUND BALANCE POLICIES AS REQUIRED BY GASB #54.

IT IS RESOLVED BY THE CITY COUNCIL FOR THE CITY OF ISLE OF PALMS, SOUTH CAROLINA, THAT:

- WHEREAS,** The Governmental Accounting Standards Board ("GASB") has adopted Statement #54 ("GASB #54"), a new standard for governmental fund balance reporting and governmental fund type definitions that became effective in governmental fiscal years starting after June 15, 2010, and;
- WHEREAS,** The City currently accounts for governmental fund balances (all funds other than the Marina Enterprise Fund and the Fire Department 1% Agency Fund) as either reserved or unreserved (which has two sub-categories of designated and undesignated), and;
- WHEREAS,** The new governmental fund categories of fund balances prescribed by GASB #54 are: Nonspendable, Restricted, Committed, Assigned and Unassigned, and;
- WHEREAS,** City Council elects to implement GASB #54 requirements, and to apply such requirements to its financial statements beginning with the fiscal year July 1, 2010 – June 30, 2011.

NOW THEREFORE BE IT RESOLVED THAT City Council hereby adopts the following policy:

FUND BALANCE POLICY

Fund balance measures the net financial resources available to finance expenditures of future periods.

The City's Unassigned fund balance in the General Fund will be maintained to provide the City with sufficient working capital and a margin of safety to address cyclical fluctuations in revenues and expenditures.

Fund balance of the City may be committed for a specific purpose by resolution of the City Council, Amendments or modifications of the Committee Funds must also be approved by resolution of the City Council.

When it is appropriate for fund balance to be assigned, the City Council delegates authority to the Mayor and City Administrator. City Council may also assign fund balance by a simple majority vote and has the authority to remove or change assigned fund balance with a simple majority vote.

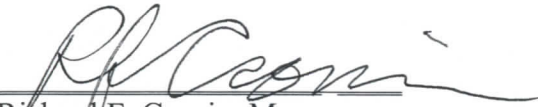
NOW THEREFORE BE IT RESOLVED that City Council, utilizing the GASB #54 definition of "Committed" fund balance, commits, as an initial amount, the following portions of its governmental fund balances as follows:

\$ 1,827,679.00 is committed from General Fund for Disaster Recovery. Spending may occur as needed for the purpose intended.

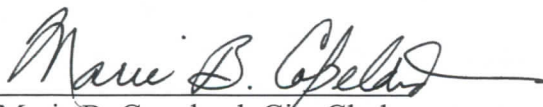
\$ 273,900.00 is committed from the Capital Projects Fund for Recreation Ball field Renovations. Spending may occur as needed for the purpose intended.

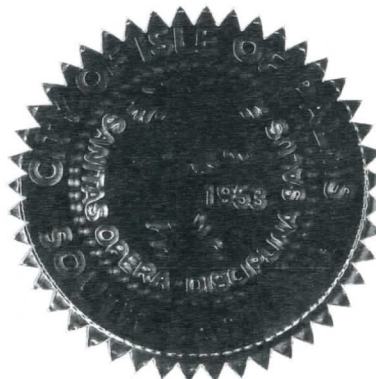
AND BE IT RESOLVED that the City's financial goal is to have a sufficient balance in the General Fund (operating fund) with sufficient working capital and a margin of safety to address cyclical fluctuations in revenues and expenditures. The City shall strive to maintain a yearly fund balance (as of June 30) in the General Fund (operating fund) in which the total fund balance is thirty (30%) percent of the total General Fund expenditures and the unassigned fund balance is twenty (20%) percent of the General Fund expenditures.

PASSED AND APPROVED BY THE CITY COUNCIL FOR THE CITY OF ISLE OF PALMS, SOUTH CAROLINA, ON THE 28TH DAY OF JUNE, 2011.


Richard F. Cronin, Mayor

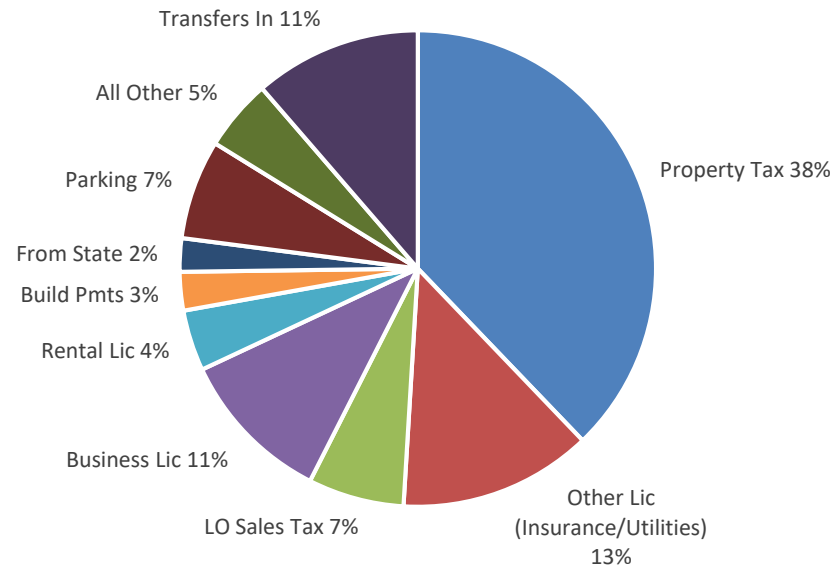
Attest:


Marie B. Copeland, City Clerk

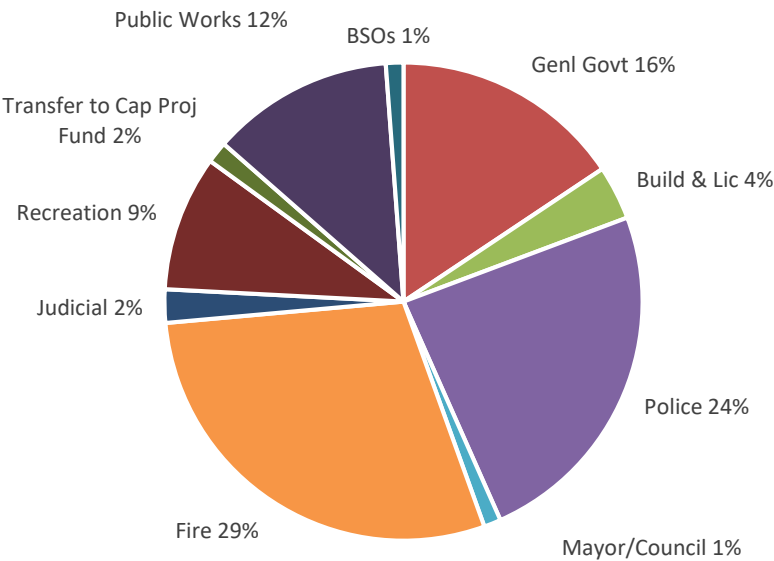


City of Isle of Palms General Fund

FY19 General Fund Budget - Revenue & Transfers In
Total = \$11,511,145



FY19 General Fund Budget - Expenditures & Transfers Out
Total = \$11,511,145



Estimate Isle of Palms Residents' Cost of Service:

Assumes 4% Primary Residence Assessment Ratio
Cost relates to Property Taxes Only, Not Other Fees

Isle of Palms Millage Rates:	
Operating Millage	0.0213
Debt Service Millage	0.0034
Total IOP Millage	0.0247
Local Opt SalesTax Credit	(0.0002)

		Appraised Value		
		\$500,000	\$750,000	\$1,000,000
		Resident Property Tax by Department:		
Mayor & Council	132,8591%	\$ 4.61	\$ 6.92	\$ 9.23
General Government	1,799,80416%	62.51	93.77	125.02
Police	2,770,42124%	96.22	144.34	192.45
Fire	3,345,67929%	116.20	174.31	232.41
Public Works	1,421,48312%	47.40	71.10	94.80
Building & Planning	420,2864%	14.60	21.90	29.20
Recreation	1,057,0369%	36.71	55.07	73.43
Judicial	259,6052%	9.02	13.53	18.03
Beach Service Officers	136,6261%	4.75	7.12	9.49
	11,343,799100%	\$ 392.03	\$ 588.05	\$ 784.06

City of Isle of Palms
Phase II Drainage - 45th - 52nd Avenue

G/L Account: 204640.5084

PROJECT COST:

Design & Engineering Contract - Phase II - 45th to 52nd Avenues
 First Contract Amendment (bid package, easements, permitting, technical support during construction, etc)
 Low Bid Received with 15% Contingency, less change orders
 Change Order #1 - field adjustment to relocate water pipe- marina line from bulkhead to pond
 Change Order #2 - addition of storm drain component for resolution of conflict with existing power line
 Change Order #3 - field adjustment to relocate drainage line away from electrical line near Wild Dunes main gate
 Change Order #4 - raise drainage pipe invert to clear power line, replace check valve with a flap gate
 Change Order #5 - additional survey and location work
 Change Order #6 - depth adjustments to lines along Palm, 46th, 49th, 51st and 52nd
 Change Order #7 - time extension only, no cost
 Change Order #8 - lake 1 outfall box and hedges on 52nd Ave
 Change Order #9 - depth admustments on line connecting ponds adjacent to Morgan Place Drive

SUBTOTAL ESTIMATED COST:

Phase II Drainage Project 45th-52nd Ave			
Engineering & Design	Construction	Reimbursables & Contingency	Total
169,000			169,000
30,000			30,000
	2,381,000	357,150	2,738,150
	29,997	(29,997)	-
	1,922	(1,922)	-
	9,074	(9,074)	-
	9,926	(9,926)	-
	51,450	(51,450)	-
	69,739	(69,739)	-
	-	-	-
	8,151	(8,151)	-
	13,137	(13,137)	-
199,000	2,574,395	163,755	2,937,150

PROJECT EXPENDITURES:

Inv. Date	Check #	Vendor	Description of Work
3/26/12	2809	CSE	Phase II engineering, layout & routing
4/9/12	2818	Eadie's Construction	45th - 52nd Ave, TB inspection
4/25/12	2820	CSE	Phase II engineering, drawings
5/25/12	2826	CSE	Phase II engineering, drawings
6/25/12	2837	CSE	engineering, wetlands survey
7/25/12	2845	CSE	engineering, survey, wetlands & drawings
8/27/12	2854	CSE	survey, drawings and postage
9/25/12	2867	CSE	engineering and drawings
10/25/12	2872	CSE	engineering and surveys
11/26/12	2874	CSE	engineering, surveys, & wetlands
1/16/13	2881	CSE	engineering, drawings & wetlands
2/7/13	2887	CSE	engineering, drawings & wetlands
2/25/13	2891	CSE	engineering, survey & drawings
5/28/13	2914	CSE	engineering
6/25/13	2920	CSE	engineering
9/25/13	2932	CSE	engineering services
10/25/13	2935	CSE	engineering services
11/25/14	2980	CSE	engineering services

900	5	905
	1,950	1,950
8,300	8	8,308
13,875		13,875
14,000		14,000
12,638	29	12,666
8,900	60	8,960
8,500	31	8,531
14,500		14,500
13,500		13,500
12,720	27	12,747
15,462	62	15,524
4,527	2	4,529
4,000		4,000
2,000		2,000
-	314	314
900	18	918
5,280	30	5,310

City of Isle of Palms
Phase II Drainage - 45th - 52nd Avenue

G/L Account: 204640.5084

PROJECT COST:

3/10/15	2990	Halversen & Associates	legal expenses related to easements
5/31/15	3002	Halversen & Associates	legal expenses related to easements
6/30/15	3012	Halversen & Associates	legal expenses related to easements
12/28/15	3045	CSE	eng svcs, meeting with HOA
12/29/15	3046	Halversen & Associates	Drainage related legal fees Nov & Dec 2015
1/31/16	3058	Halversen & Associates	Drainage related legal fees Jan 2016
2/21/16	3068	Halversen & Associates	Drainage related legal fees Golf Cart Easement
3/1/16	3076	Halversen & Associates	Drainage related legal fees Golf Cart Easement
5/16/16	3090	Halversen & Associates	Legal fees, WDYH meeting, golf cart/IOPWSC easements
5/25/16	3089	CSE	eng svcs, site meeting WDYH easement
6/27/16	3096	CSE	revised drawing exhibits
6/28/16	3101	Halversen & Associates	Drainage related legal fees for June 2016
1/25/17	3130	CSE	Eng svcs, Phase II drainage
4/25/17	3158	CSE	Drainage Phase II permit, drawings for bid package
5/25/17	3179	CSE	Bid package preparation
6/26/17	3177	CSE	Finalize bid package and advertisement
7/25/17	3183	CSE	Bid opening, review of tabulation
9/1/17	3194	CSE	Met with IOPWSC, prepare grant info
9/25/17	47982	CSE	preconstruction meeting
10/25/17	50205	CSE	property owners meeting, sketch flap gate
11/2/17	50195	IPW	construction pay app #1
11/27/17	50366	CSE	project management
12/22/17	50458	IPW Construction Group	construction pay app #2
12/27/17	50616	CSE	professional services & project mgt
2/5/18	50785	IPW Construction Group	construction pay app #3
2/26/18	50891	CSE	professional services & project mgt
2/28/18	50946	IPW	construction pay app #4
3/26/18	51084	CSE	professional services & project mgt
4/2/18	51223	IPW	construction pay app #5
4/25/18	51307	CSE	professional services & project mgt
5/8/18	51480	IPW	construction pay app #6
5/25/18	51592	CSE	professional services & project mgt
5/29/18	51876	IPW	construction pay app #7
6/25/18	51871	CSE	professional services & project mgt
6/28/18	51940	IPW	construction pay app #8

Phase II Drainage Project 45th-52nd Ave			
Engineering & Design	Construction	Reimbursables & Contingency	Total
		1,705	1,705
		1,641	1,641
		12	12
180			180
		281	281
		540	540
		206	206
		96	96
		900	900
400			400
300			300
		108	108
1,450		90	1,540
600			600
12,590			12,590
4,600		87	4,687
2,750		87	2,837
800		492	1,292
1,000		54	1,054
450		74	524
	214,032		214,032
2,600		28	2,628
	113,388		113,388
850			850
	90,001		90,001
2,100			2,100
	83,772		83,772
3,500		6	3,506
	145,934		145,934
3,000			3,000
	213,316		213,316
750			750
	241,100		241,100
4,700			4,700
	97,479		97,479

City of Isle of Palms
Phase II Drainage - 45th - 52nd Avenue

G/L Account: 204640.5084

PROJECT COST:

7/30/18	52248	IPW	construction pay app #9
8/1/18	52308	CSE	professional services & project mgt
8/27/18	52397	CSE	professional services & project mgt - change orders/Palm revisions
8/28/18	52404	IPW	construction pay app #10
10/3/18	52635	IPW	construction pay app #11
10/17/18	52627	CSE	professional services & project mgt
11/8/18	52826	CSE	professional services & project mgt
11/9/18	52874	IPW	construction pay app #12
11/26/18	53073	CSE	professional services & project mgt
11/29/18	53207	IPW	construction pay app #13
1/1/19	53320	IPW	construction pay app #14
1/24/19	53471	IPW	construction pay app #15
1/25/19	53462	CSE	site visit
2/25/19	53639	CSE	professional services & project mgt
2/26/19	53864	IPW	construction pay app #16
3/25/19	53915	CSE	professional services & project mgt
4/25/19		CSE	prfessional services & project mgt
6/30/17	various	Halversen & Associates	legal expense related to project, FY17
6/30/18	various	Halversen & Associates	legal expense related to project, FY18
6/30/19	various	Hinchey Murray & Pagliarini (J Copeland)	legal expense related to project, FY19

Phase II Drainage Project 45th-52nd Ave			
Engineering & Design	Construction	Reimbursables & Contingency	Total
	71,716		71,716
4,700			4,700
2,350		11	2,361
	96,674		96,674
	146,643		146,643
500			500
1,300			1,300
	228,403		228,403
1,050		-	1,050
	163,925		163,925
	118,020		118,020
	179,696		179,696
300			300
1,000			1,000
	89,648		89,648
2,300			2,300
1,400			1,400
		2,752	2,752
		5,061	5,061
		72	72
197,522	2,293,747	16,836	2,508,105
1,479	280,648	146,919	429,045

SUBTOTAL SPENDING:

REMAINING TO SPEND:

City of Isle of Palms
Replace (6) Underground Fuel Storage Tanks & PWks Fuel Canopy
IOP Public Works (2) and IOP Marina (4)

Contracts and Change Orders Received:

Summit Engineering	Technical assistance & contract admin
Jones & Frank	Construction
Jones & Frank Change Order	Hose reels for dock fuel dispensers
Legal & Miscellaneous expense estimate	

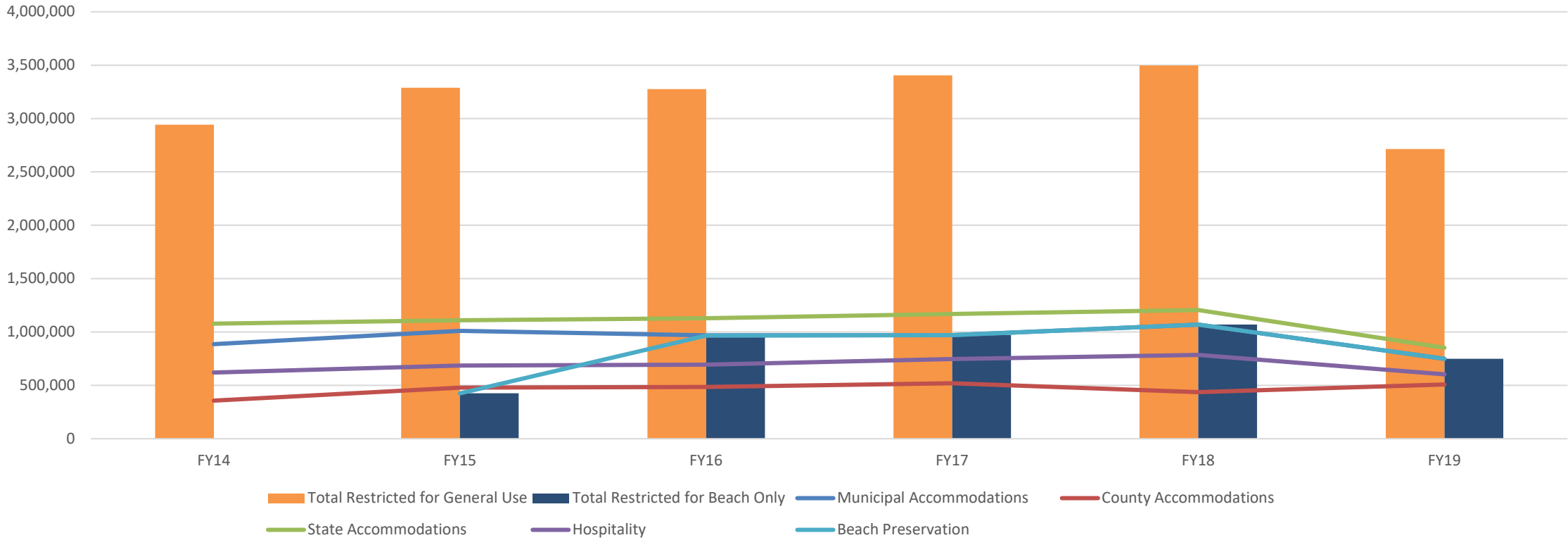
Project Expenditures:

Invoice Date	Payee	Description of Work
3/1/2018	Summit Engineering Lab	testing related to removal of UST tanks
7/25/2018	Jones & Frank	Pay App #1 tanks and installation - Pub Wks site
8/31/2018	Summit Engineering Lab	project oversight, mileage
8/31/2018	Jones & Frank	Pay App #2 - Pub Works Site
9/30/2018	Jones & Frank	Pay App #3
10/26/2018	Jones & Frank	config & startup of fuel mgt sys after PWKS repl
10/31/2018	Jones & Frank	Pay App #4
1/1/2019	Summit Engineering Lab	project oversight, mileage
2/1/2019	Jones & Frank	Fuel removal & disposal from Public Works site
2/6/2019	Jones & Frank	Pay App #5 - Marina site
3/1/2019	Jones & Frank	Pay App #6 - Marina site
4/1/2019	Jones & Frank	Pay App #7 - Marina site
5/1/2019	Jones & Frank	Pay App #8 - Marina site (\$82,176 retainage remaining)
		Total paid
		Remaining on contracts

FY19 Budget for Public Works UST Replacmnt	280,000
FY19 Budget for Public Works Fuel Canopy	30,000
FY19 Budget for Marina UST Replacement	620,000
Contracts/Change Orders	(859,249)
Budget Funds Remaining	70,751

Construction Admin	Construction	Legal & Misc	Total
21,737			21,737
	809,592	-	809,592
	12,920	-	12,920
		15,000	15,000
21,737	822,512	15,000	859,249
		4,240	4,240
	127,026		127,026
4,204			4,204
	57,746		57,746
	43,290		43,290
		1,500	1,500
	14,815		14,815
		1,790	1,790
		4,620	4,620
	166,832		166,832
	147,684		147,684
	143,794		143,794
	38,398		38,398
4,204	739,586	12,150	755,940
17,533	82,926	2,850	103,309

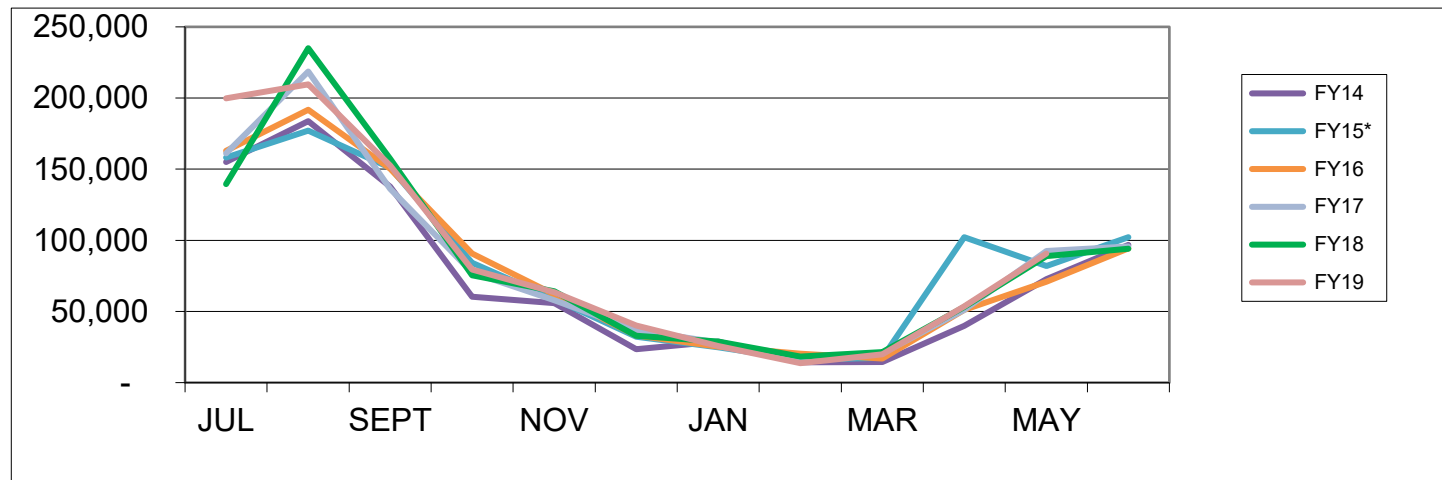
City of Isle of Palms Tourism Revenues



	FY14	FY15	FY16	FY17	FY18	FY19
Municipal Accommodations	886,286	1,010,881	967,728	969,974	1,069,429	749,266
County Accommodations	357,191	479,813	485,093	520,000	437,000	508,000
State Accommodations	1,078,259	1,111,010	1,129,474	1,168,660	1,205,838	852,434
Hospitality	619,399	686,537	694,206	746,402	785,452	603,643
Beach Preservation		425,226	966,152	969,974	1,069,429	749,266
Total Restricted for General Use	2,941,136	3,288,241	3,276,501	3,405,036	3,497,719	2,713,342
Total Restricted for Beach Only	-	425,226	966,152	969,974	1,069,429	749,266
Grand Total	2,941,136	3,713,467	4,242,653	4,375,010	4,567,149	3,462,608
		26%	14%	3%	4%	-24%

City of Isle of Palms Municipal Accommodations Fee Collections

	FY14	FY15*	FY16	FY17	FY18	FY19
JUL	154,960	158,217	162,862	161,068	139,501	199,724
AUG	183,738	177,087	191,759	218,620	235,007	209,600
SEPT	137,686	151,064	150,212	136,141	157,274	152,535
OCT	60,449	84,113	90,691	77,500	75,353	79,534
NOV	55,789	58,716	61,918	57,777	64,256	63,444
DEC	23,420	32,277	33,233	36,937	32,877	40,182
JAN	28,793	24,860	25,309	28,217	28,859	25,836
FEB	14,273	16,123	20,313	15,332	18,317	13,666
MAR	14,492	17,406	16,918	20,485	21,562	19,983
APR	39,874	102,242	51,082	51,166	53,213	53,685
MAY	72,805	81,994	70,954	92,529	88,875	90,800
JUNE	96,749	102,138	94,270	95,768	94,112	
Deduct last July	(154,960)	(158,217)	(162,862)	(161,068)	(139,501)	(199,724)
Add next July	158,217	162,862	161,068	139,501	199,724	
Total Fiscal Year	886,286	1,010,881	967,728	969,974	1,069,429	749,266
	Incr from FY13 9%	Incr from FY14 14%	Incr from FY15 -4%	Incr from FY16 0%	Incr from FY16 10%	Incr from FY18 4%

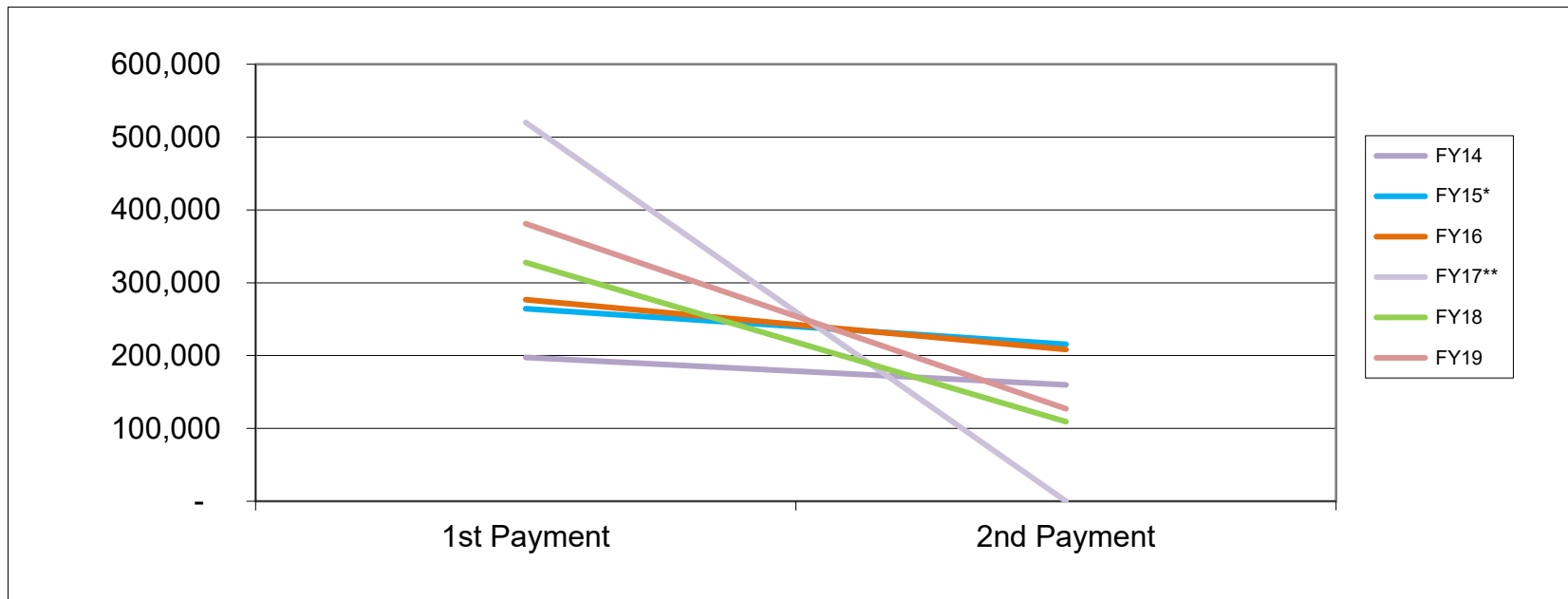


* April 2015 includes \$52,496 one-time revenue related to settlement from online travel companies.

City of Isle of Palms Revenue From Charleston County Accommodations Tax Pass-Through

	FY14	FY15*	FY16	FY17**	FY18	FY19
1st Payment	197,400	264,335	276,704	520,000	327,750	381,000
2nd Payment	159,791	215,479	208,390	-	109,250	127,000
Total Fiscal Yr	357,191	479,813	485,093	520,000	437,000	508,000

9% Incr from FY13	34% Incr from FY14	1% Incr from FY15	7% Incr from FY16	-16% Incr from FY17	16% Incr from FY18
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* Beginning in FY15, Charleston County increased its pass-through % from 20% to 25% of County Atax collected on the Isle of Palms.

** Only one payment received for all of FY17. County personnel indicate there will be a smaller 2nd payment in FY18.

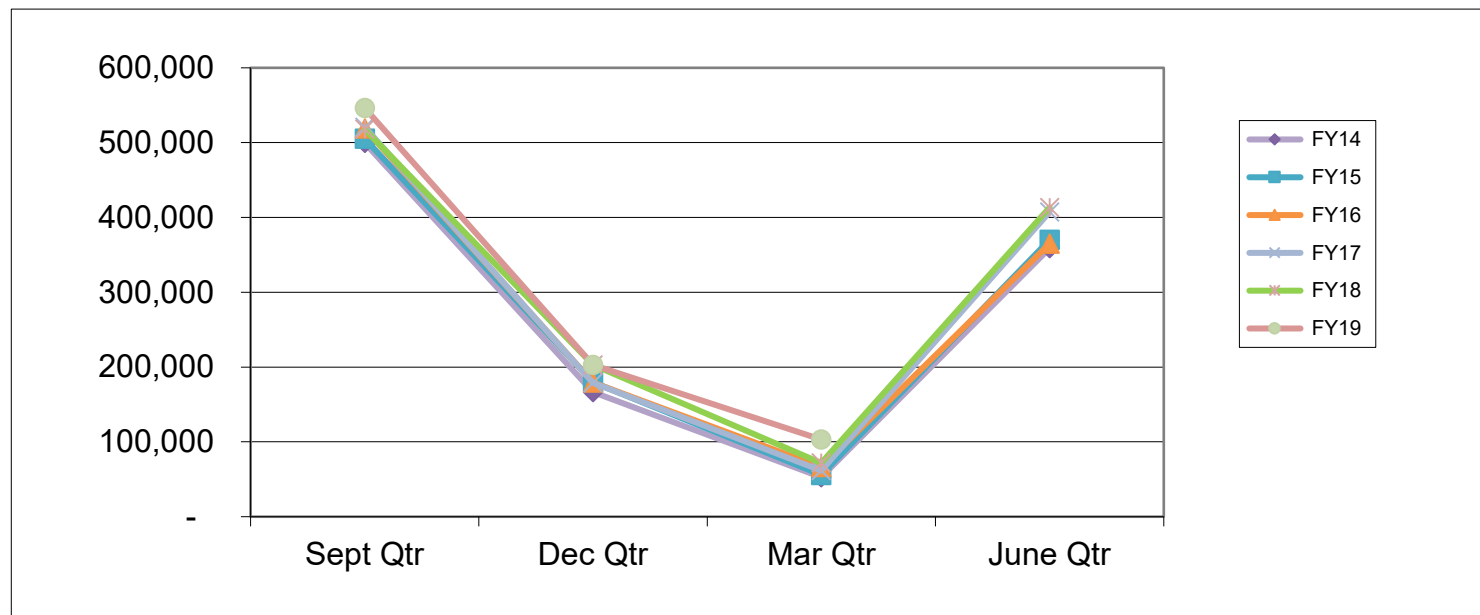
City of Isle of Palms State Accommodations Tax Collections

Tourism-Related Portion Only

	FY14	FY15	FY16	FY17	FY18	FY19
Sept Qtr	499,676	505,199	518,796	520,784	518,028	546,269
Dec Qtr	166,673	179,923	179,446	178,830	202,803	203,067
Mar Qtr	52,817	55,913	66,294	61,586	71,773	103,097
June Qtr	359,094	369,976	364,938	407,460	413,234	
Total Fiscal Yr	1,078,259	1,111,010	1,129,474	1,168,660	1,205,838	852,434

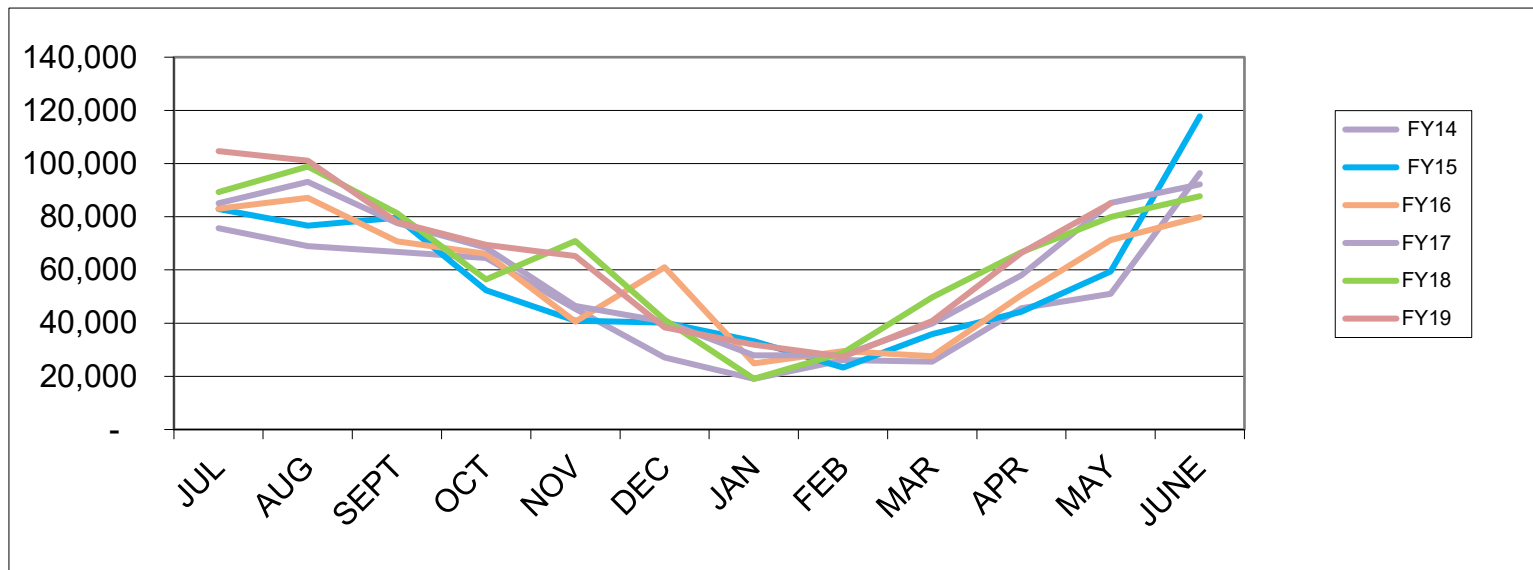
Check to G/L

13.6% Incr from FY13	3.0% Incr from FY14	1.7% Incr from FY15	3.5% Incr from FY16	3.2% Incr from FY17	7.5% Incr from FY18
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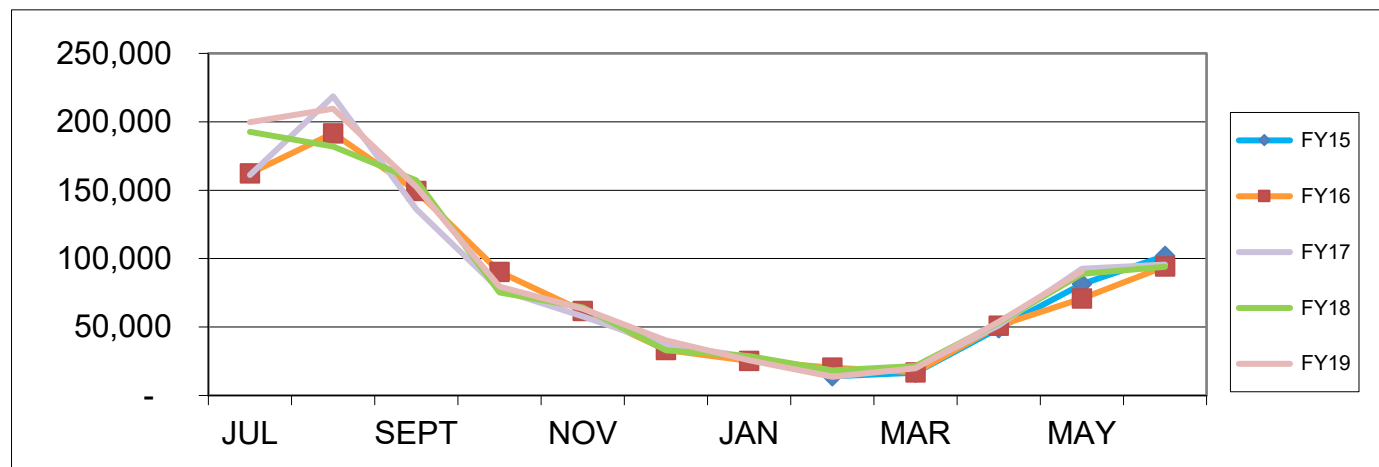
City of Isle of Palms Hospitality Tax Collections

	FY14		FY15		FY16		FY17		FY18		FY19	
	Taxes Paid	# of Payers	Taxes Paid	# of Payers	Taxes Paid	# of Payers	Taxes Paid	# of Payers	Taxes Paid	# of Payers	Taxes Paid	# of Payers
JUL	75,718	28	82,898	28	83,038	31	85,051	29	89,309	27	104,681	30
AUG	68,958	25	76,606	29	87,110	29	93,123	27	98,883	27	101,031	34
SEPT	66,779	26	79,619	32	70,725	32	77,619	29	81,373	34	78,014	29
OCT	64,513	25	52,308	33	66,113	34	68,348	27	56,439	31	69,394	29
NOV	45,325	25	40,949	26	40,576	12	46,488	24	70,905	34	65,210	28
DEC	27,092	25	40,157	22	61,052	30	40,557	26	41,260	25	38,440	29
JAN	19,057	26	33,166	31	24,864	26	27,883	26	19,085	23	31,905	28
FEB	26,164	21	23,297	25	29,443	21	27,947	22	28,826	24	27,373	28
MAR	25,564	21	35,894	26	27,586		39,785	26	49,744	26	40,741	28
APR	45,637	24	44,335	26	50,531	25	57,961	28	66,633	28	66,425	33
MAY	50,987	28	59,407	28	71,297	32	85,246	29	79,870	27	85,109	
JUNE	96,425	29	117,761	33	79,858	30	92,137	29	87,753	28		
Deduct last July	(75,718)		(82,898)		(83,038)		(85,051)		(89,309)		(104,681)	
Add next July	82,898		83,038		85,051		89,309		104,681		-	
Total Fiscal Year	619,399		686,537		694,206		746,402		785,452		603,643	
	Incr fr FY13	12%	Incr fr FY14	11%	Incr fr FY15	1%	Incr fr FY16	8%	Incr fr FY17	5%	Incr fr FY18	4%



City of Isle of Palms Beach Preservation Fee

	FY15	FY16	FY17	FY18	FY19
JUL		162,228	161,068	192,666	199,724
AUG		191,610	218,620	181,842	209,600
SEPT		149,350	136,141	157,274	152,535
OCT		90,398	77,500	75,353	79,534
NOV		61,647	57,777	64,256	63,444
DEC		33,233	36,937	32,877	40,182
JAN		25,309	28,217	28,859	25,836
FEB	13,997	20,313	15,332	18,317	13,666
MAR	16,526	16,918	20,485	21,562	19,983
APR	49,060	51,082	51,166	53,213	53,685
MAY	81,384	70,954	92,529	88,875	90,800
JUNE	102,031	94,270	95,768	94,112	
Deduct last July	-	(162,228)	(161,068)	(139,501)	(199,724)
Add next July	162,228	161,068	139,501	199,724	
Total Fiscal Year	425,226	966,152	969,974	1,069,429	749,266
			Incr from FY16 0%	Incr from FY17 10%	Incr from FY18 4%

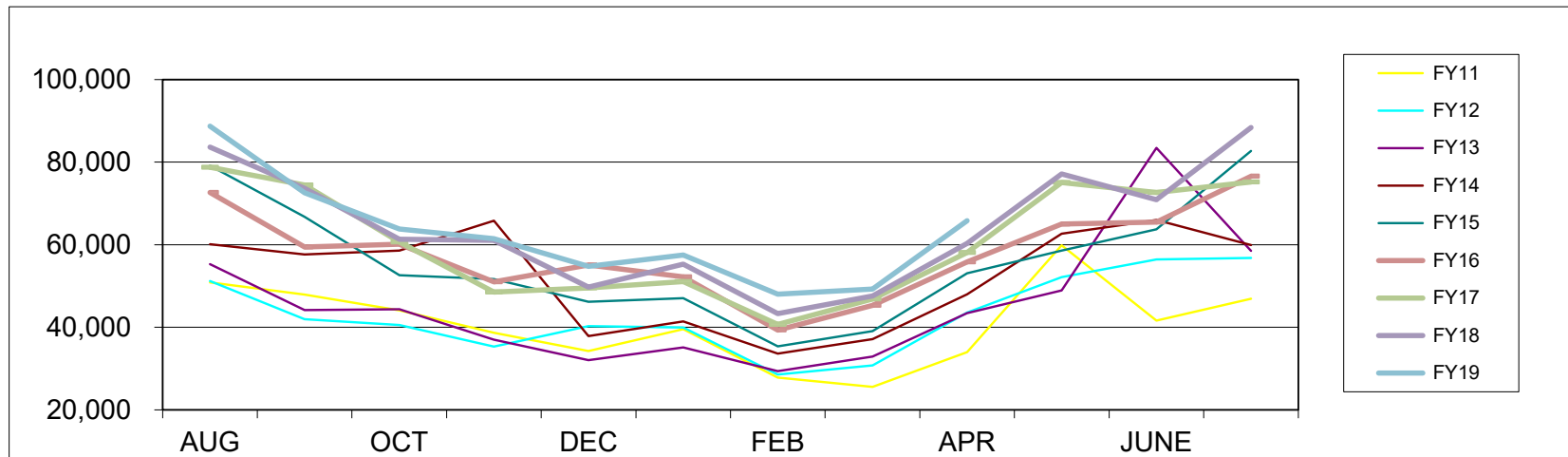


City of Isle of Palms Local Option Sales Tax Collections

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
AUG	50,901	51,225	55,308	60,148	79,157	72,684	78,763	83,614	88,713
SEPT	47,910	41,968	44,160	57,629	66,742	59,485	74,435	73,671	72,557
OCT	44,096	40,583	44,387	58,596	52,592	60,091	60,675	61,352	63,829
NOV	38,647	35,340	37,002	65,846	51,671	50,987	48,526	61,040	61,435
DEC	34,280	40,294	32,013	37,848	46,175	55,100	49,536	49,732	54,748
JAN	39,535	39,952	35,124	41,441	47,026	52,199	51,084	55,282	57,483
FEB	27,808	28,563	29,382	33,630	35,387	39,321	40,694	43,314	48,026
MAR	25,569	30,796	32,904	37,132	39,091	45,304	46,832	47,589	49,240
APR	33,966	43,572	43,437	47,960	53,077	55,848	58,126	60,349	65,794
MAY	59,859	52,169	48,957	62,684	58,550	65,020	75,033	77,153	
JUNE	41,631	56,454	83,452	65,995	63,722	65,457	72,661	70,879	
JULY	46,891	56,799	58,510	59,932	82,715	76,581	75,171	88,382	

Total Fiscal Year

491,091	517,717	544,635	628,841	675,906	698,077	731,537	772,357	561,826
Decr from FY10 -3%	Incr from FY11 5%	Incr from FY12 5.2%	Incr from FY13 15.5%	Incr from FY14 7.5%	Incr from FY15 3.3%	Incr from FY16 4.8%	Incr from FY17 5.6%	Incr from FY18 4.8%





***INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES***

The Honorable Mayor and Members of City Council
City of Isle of Palms
1207 Palm Boulevard
Isle of Palms, SC 29451

We have performed the procedures listed below, which were agreed to by management of City of Isle of Palms solely to assist you in evaluating the financial accuracy and internal controls of the marina tenants. This agreed-upon procedure engagement, as stated in our engagement letter dated December 3, 2018, was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is the sole responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Marina Joint Ventures (MJV):

- 1.) Agree MJV general ledger sales and cost of goods sold (COGS) for the year ended January 31, 2018 to financials provided to City.**

Sales per MJV's general ledger were \$3,280 lower than the financials provided to the City. Cost of goods sold were \$241 lower than the financials provided to the City. The gross profit was higher on the financials provided to the City by \$3,039 when compared to the gross profit on the general ledger.

- 2.) Select a haphazard sample of 20 sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

- 3.) Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).**

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

- 4.) Obtain a listing of all subtenants lease agreements with MJV. Compare MJV's listing of subtenants to schedule of subtenants provided by the City of Isle of Palms to determine if additional subtenants are in place that the City of Isle of Palms is unaware of.**

A listing of subtenants was provided by MJV which noted additional tenants from the schedule of subtenants provided by the City. The additional were noted to be subtenants renting dock space from MJV. Five of these subtenants were tested at #5 below.

- 5.) Select five subtenants haphazardly and verify that lease income is being reported in GL consistent with the lease agreement.**

For five subtenants haphazardly selected, we verified that the lease income reported in the general ledger was consistent with the lease agreement.

- 6.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.**

Sales of MJV were higher than cash receipts on the bank statement by \$2,727. MJV's management attributed the difference of \$2,727 to the financial statements being on accrual basis and the bank statements being on cash basis.

- 7.) Review the revenue and cost of goods general ledger accounts to see if any unusual journal entries are being booked that would reduce gross profit, and obtain support for any such journal entries over \$1,000.**

There were three transactions that were over \$1,000. All three transactions were supported with documentation and were noted to be for valid business purposes (i.e. year-end adjustments for inventory counts).

- 8.) Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.**

No internal control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

Marina Outpost (MO):

9.) Agree MO general ledger sales and COGS for the year ended January 31, 2018 to financials provided to City.

Sales per MO's general ledger were \$53,346 higher than the financials provided to the City. Cost of goods were \$52,085 higher than the financials provided to the City. The gross profit was higher on MO's general ledger by \$1,261 when compared to the gross profit on the financials provided to the City.

10.) Select a haphazard sample of 20 sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

11.) Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).

No errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided.

12.) Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.

Sales of MO were higher than cash receipts on the bank statement by \$11,853. MO's management attributed this difference to the financial statements being on accrual basis and the bank statements being on cash basis.

13.) Compare 10 daily reports from AGK software to upload to QuickBooks.

No errors were noted on the haphazard sample of 10 transactions tested, and all supporting documentation was provided.

14.) Review the revenue and cost of goods general ledger accounts to see if any unusual journal entries are being booked that would reduce gross profit, and obtain support for any such journal entries over \$1,000.

There was one transaction that was over \$1,000 and reduced gross profit. The transaction was supported with documentation and was noted to be for a valid business purpose (i.e. year-end adjustments for inventory counts).

15.)Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.

No internal control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

Morgan Creek Grill (MGC):

16.)Agree MGC general ledger sales for the year ended October 31, 2017 to financials provided to City.

Sales per the general ledger agreed to the sales on the financials provided to the City.

17.)Review "comps" deducted from gross receipts and report comps that are greater than 1% of sales for the year ended.

We obtained the schedule of "comps" deducted from gross receipts, and noted there were no "comps" greater than 1% of sales.

18.)Select 20 days at random and agree closeout register support to general ledger and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).

There were 3 errors were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided. The three errors were credit card transactions that did not agree to the bank statement and had differences of \$257, \$14, and \$25. An additional sample of 10 transactions was selected and tested. Of the additional 10 transactions tested, no errors were noted, and all supporting documentation was provided.

19.)Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.

Sales of MGC were higher than cash receipts on the bank statement totaled by \$59,390. MGC's management attributed the difference of \$59,390 to the financial statements being on accrual basis and the bank statements being on cash basis.

20.)Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.

Control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

- a.) It was noted that the Operations Manager prepares the bank reconciliation and also takes deposits to the bank. This is an internal control deficiency in segregation of duties, and we recommended to MGC that a separate individual deposit cash receipts and prepare the bank reconciliation.
- b.) No review of the bank reconciliation is occurring, and we recommended to MGC that one of the owners review the bank reconciliation on a monthly basis.

Tidal Wave Sports (TWS):

21.)Agree general ledger sales and COGS to financials provided to City.

Sales per the general ledger were \$19,862 lower than the financials provided to the City. Cost of goods sold were \$558 lower than the financials provided to the City.

22.)Select a haphazard sample of 20 IOP sales transactions and obtain closeout sheet from cash register to corroborate amount in general ledger. Agree related deposit slip to closeout sheet and bank statement. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).

No errors in the amounts were noted on the haphazard sample of 20 transactions tested, and all supporting documentation was provided. However, for one sale tested it was noted that the sales were for the Mount Pleasant location and not Isle of Palms.

23.)Select 15 Mount Pleasant sales transactions, and obtain closeout sheet to determine that amount related to Mount Pleasant revenues and not Isle of Palms.

Mount Pleasant sales were not provided by Tidal Wave as they maintained this was private information not privy to the City.

24.)Select a haphazard sample of 20 COGS transactions and obtain the related invoice to corroborate amount in general ledger. In the event an error is found in the initial sample of 20, an additional sample of 5 haphazard transactions will be selected to test. If more than one error is found in the initial sample of 20 or the additional 5 selected an additional sample of 5 haphazard transactions will be tested (for a maximum of 30 transactions if 2 errors are discovered).

One error in the amount of \$100 was noted on the haphazard sample of 20 transactions tested, and one transaction had no support available. An additional sample of 10 expenses was sampled. Support was provided for 8 of the items that agreed to the amount on the general ledger with no errors. However, support was not available for 2 of the 10 additional items selected to test. Additionally, it was noted that all items were 100% allocated to the Isle of Palms location, and based on the support provided 25 of the 30 should have had a portion of the expense allocated to the Mount Pleasant location.

25.)Compare total cash receipts from bank statement for the year to total sales reported on the financial statements and report difference.

Bank statements of TWS include activity of the Mount Pleasant location and warehouse rental. Therefore, total sales of all three organizations were compared to the total cash receipts on the bank statements for the year. Sales of TWS were lower than cash receipts on the bank statement by \$29,983. TWS's management attributed the difference to cash received for rent, loan payments, refunds, and other miscellaneous receipts that were not sales related.

26.)Test allocation of payroll between City of Isle of Palms and Mt. Pleasant location by selecting 10 payrolls during year, and selecting the 3 highest paid employees to determine that payroll is allocated to locations properly.

The 3 highest employees consisted of ownership and management. The owners' payroll was allocated in total based on their total wages, time incurred at each location, and time incurred on administrative work or direct labor. We obtained the payroll reports, the calculation of the owner's compensation allocated to direct labor for Isle of Palms, and recalculated the schedule, and agreed it to the general ledger. Additionally, the methodology and allocation percentages appeared reasonable based on information provided by TWS.

There was no support available for the allocation of the employees' biweekly payroll between the Isle of Palms location and Mount Pleasant. The management employee selected for testing worked exclusively at the Isle of Palms location based on discussions with TWS. However, there was no support provided which could link the 10 pays selected to test to the general ledger for this management employee.

27.)Obtain methodology for which costs are included in the cost of goods sold of TWS, and determine whether this is in line with generally accepted accounting principles.

The methodology for expenses included in cost of goods sold is in line with generally accepted accounting principles. Cost of goods sold consists primarily of direct labor, repairs and maintenance, and fuel.

28.)Select 20 fuel invoices haphazardly and obtain receipts to ensure location is accurate. Inquire of owners to determine whether fuel purchased at Isle of Palms is used for Mount Pleasant location and allocated to location on financial statements.

No receipts were available for the 20 fuel invoices haphazardly selected for testing. TWS provided their credit card statements to verify the amounts and locations on the general ledger, and all amounts agreed with no error. It was noted that 3 of the fuel expenses tested had been obtained from a Mount Pleasant location. Additionally, there was no way to determine if fuel purchased at the Isle of Palms marina had been used for boats used at Isle of Palms or at Mount Pleasant.

29.)Walk through 5 cash receipt transactions, and report on internal control deficiencies within the tenant's process.

Control deficiencies were noted within the tenant's process for the 5 cash receipt transactions tested.

- a.) TWS has sales at Isle of Palms as well as Mount Pleasant. All activity is maintained in one Quickbooks account and divided by class/location. Sales of Isle of Palms could be recorded in the Mount Pleasant location to reduce gross profit.
- b.) TWS has sales from two locations as well as from a warehouse, and all income received flows through one bank account. We would recommend that three separate bank statements be set up for the different revenue streams.
- c.) The bank reconciliation is prepared by the owner, and no other review of the bank reconciliation is performed. We would recommend that a bookkeeper or Certified Public Accountant prepare the bank reconciliation each month and the owner review it.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial accuracy and internal controls of the marina tenants. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of City of Isle of Palms and City Council and is not intended to be and should not be used by anyone other than this specified party.

Very truly yours,

McKay Kiddy LLC

June 3, 2019

